

**FARESTART**  
**CONSOLIDATED FINANCIAL STATEMENTS**  
**DECEMBER 31, 2021 AND 2020**

# FARESTART

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**INDEPENDENT AUDITORS' REPORT**

Board of Directors  
FareStart

**Report on the Audit of the Financial Statements**

***Opinion***

We have audited the accompanying consolidated financial statements of FareStart (a nonprofit organization), which comprise the consolidated statements of financial position as of December 31, 2021 and 2020, and the related consolidated statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of FareStart as of December 31, 2021 and 2020, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

***Basis for Opinion***

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of FareStart and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

***Responsibilities of Management for the Financial Statements***

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about FareStart's ability to continue as a going concern within one year after the date that the consolidated financial statements are available to be issued.

## INDEPENDENT AUDITORS' REPORT, CONTINUED

### *Auditors' Responsibilities for the Audit of the Financial Statements*

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the consolidated financial statements.

In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of FareStart's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about FareStart's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

## INDEPENDENT AUDITORS' REPORT, CONTINUED

### *Supplementary Information*

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying consolidating statements of financial position and activities are presented for purposes of additional analysis and are not a required part of the consolidated financial statements. Similarly, the accompanying schedule of expenditures of federal awards, as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, consolidating statements of financial position and activities and the schedule of expenditures of federal awards are fairly stated, in all material respects, in relation to the financial statements as a whole.

### **Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated September 20, 2022, on our consideration of FareStart's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of FareStart's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering FareStart's internal control over financial reporting and compliance.

*Finney, Hill & Company, P.S.*

September 20, 2022  
Seattle, Washington

**FARESTART**  
Consolidated Statements of Financial Position  
December 31, 2021 and 2020

<u>ASSETS</u>	<u>2021</u>	<u>2020</u>
Current Assets		
Cash and cash equivalents	\$ 9,387,609	\$ 9,811,466
Accounts receivable, net	283,569	348,304
Federal awards receivable	378,315	178,127
Promises to give - current	679,625	568,348
Contribution receivable for rent - current (Notes 11 & 15)	744,623	1,342,710
Prepaid expenses	267,010	179,015
Inventory	<u>134,276</u>	<u>138,176</u>
Total Current Assets	11,875,027	12,566,146
Investments, at fair value - board restricted	1,682,297	1,683,639
Promises to give - long-term, net	100,000	37,500
Contribution receivable for rent, net of current (Notes 11 & 15)	3,333,155	688,817
Property and equipment, net	<u>8,259,105</u>	<u>8,307,126</u>
	<u>\$ 25,249,584</u>	<u>\$ 23,283,228</u>
<u>LIABILITIES AND NET ASSETS</u>		
Current Liabilities		
Accounts payable	\$ 684,195	\$ 660,991
Accrued payroll expenses	628,302	702,346
Line of credit	-	1,500,000
Notes payable - current (Note 8)	-	2,473,113
Capital lease liability - current	45,512	57,360
Deferred revenue	<u>133,778</u>	<u>294,786</u>
Total Current Liabilities	1,491,787	5,688,596
Notes payable, net of current (Note 8)	-	494,305
Capital lease liability	12,646	58,112
Deferred rent liability	<u>14,527</u>	<u>11,202</u>
Total Liabilities	<u>1,518,960</u>	<u>6,252,215</u>
Net Assets		
Without donor restrictions	19,152,846	14,455,637
With donor restrictions	<u>4,577,778</u>	<u>2,575,376</u>
Total Net Assets	<u>23,730,624</u>	<u>17,031,013</u>
	<u>\$ 25,249,584</u>	<u>\$ 23,283,228</u>

*The accompanying notes are an integral part of these consolidated financial statements.*

**FARESTART**  
Consolidated Statement of Activities  
Year Ended December 31, 2021

	<u>Without</u> <u>Donor Restrictions</u>	<u>With</u> <u>Donor Restrictions</u>	<u>Total</u>
Operating Revenue			
Food service revenue	\$ 6,364,923	-	\$ 6,364,923
In-kind contributions - food	<u>775,762</u>	<u>-</u>	<u>775,762</u>
	7,140,685	-	7,140,685
Cost of goods sold	<u>3,335,338</u>	<u>-</u>	<u>3,335,338</u>
Net Operating Revenue	<u>3,805,347</u>	<u>-</u>	<u>3,805,347</u>
Public Support and Other Revenue			
Private grants	6,760,421	1,027,503	7,787,924
Public contracts	307,057	-	307,057
Contributions - operating	2,057,248	1,810,353	3,867,601
In-kind contributions - non-food (Note 9)	2,155,555	3,388,962	5,544,517
Special events, net of direct benefits to donors of \$35,301	1,636,328	-	1,636,328
Services and membership dues - Catalyst Kitchens	317,853	-	317,853
Investment income and other	<u>18,021</u>	<u>-</u>	<u>18,021</u>
Total Public Support and Other Revenue	<u>13,252,483</u>	<u>6,226,818</u>	<u>19,479,301</u>
Debt forgiveness	2,496,037	-	2,496,037
Net Assets Released from Restrictions			
Expiration of time restrictions	1,542,711	(1,542,711)	-
Satisfaction of purpose restrictions	<u>2,681,705</u>	<u>(2,681,705)</u>	<u>-</u>
Total Net Assets Released from Restrictions	<u>4,224,416</u>	<u>(4,224,416)</u>	<u>-</u>
Total Public Support, Revenue, and Other Support	<u>23,778,283</u>	<u>2,002,402</u>	<u>25,780,685</u>
Expenses			
Program services	11,368,421	-	11,368,421
Management and general			
FareStart Operations	5,788,167	-	5,788,167
FareStart Properties, LLC	171,750	-	171,750
Fundraising	<u>1,734,594</u>	<u>-</u>	<u>1,734,594</u>
Total Expenses	<u>19,062,932</u>	<u>-</u>	<u>19,062,932</u>
Revenue over (under) expenses	4,715,351	2,002,402	6,717,753
Net realized and unrealized gains (losses) on investments	<u>(18,142)</u>	<u>-</u>	<u>(18,142)</u>
Change in Net Assets	4,697,209	2,002,402	6,699,611
Net Assets, beginning of year	<u>14,455,637</u>	<u>2,575,376</u>	<u>17,031,013</u>
Net Assets, end of year	<u>\$ 19,152,846</u>	<u>4,577,778</u>	<u>\$ 23,730,624</u>

*The accompanying notes are an integral part of these consolidated financial statements.*

**FARESTART**  
Consolidated Statement of Activities  
Year Ended December 31, 2020

	Without Donor Restrictions	With Donor Restrictions	Total
Operating Revenue			
Food service revenue	\$ 6,353,233	-	\$ 6,353,233
In-kind contributions - food	762,329	-	762,329
	<u>7,115,562</u>	<u>-</u>	<u>7,115,562</u>
Cost of goods sold	3,366,856	-	3,366,856
Net Operating Revenue	<u>3,748,706</u>	<u>-</u>	<u>3,748,706</u>
Public Support and Other Revenue			
Private grants	4,354,791	3,912,950	8,267,741
Public contracts	688,440	-	688,440
Contributions - operating	6,817,791	535,700	7,353,491
In-kind contributions - non-food (Note 9)	1,813,926	-	1,813,926
Special events, net of direct benefits to donors of \$189,889	1,286,922	-	1,286,922
Services and membership dues - Catalyst Kitchens	302,752	-	302,752
Investment income and other	57,715	-	57,715
Total Public Support and Other Revenue	<u>15,322,337</u>	<u>4,448,650</u>	<u>19,770,987</u>
Net Assets Released from Restrictions			
Expiration of time restrictions	292,470	(292,470)	-
Satisfaction of purpose restrictions	6,399,744	(6,399,744)	-
Total Net Assets Released from Restrictions	<u>6,692,214</u>	<u>(6,692,214)</u>	<u>-</u>
Total Public Support, Revenue, and Other Support	<u>25,763,257</u>	<u>(2,243,564)</u>	<u>23,519,693</u>
Expenses			
Program services	17,657,468	-	17,657,468
Management and general			
FareStart Operations	3,813,148	-	3,813,148
FareStart Properties, LLC	171,756	-	171,756
Fundraising	1,528,655	-	1,528,655
Total Expenses	<u>23,171,027</u>	<u>-</u>	<u>23,171,027</u>
Revenue over (under) expenses	2,592,230	(2,243,564)	348,666
Net realized and unrealized gains (losses) on investments	19,472	-	19,472
Change in Net Assets	2,611,702	(2,243,564)	368,138
Net Assets, beginning of year	<u>11,843,935</u>	<u>4,818,940</u>	<u>16,662,875</u>
Net Assets, end of year	<u>\$ 14,455,637</u>	<u>2,575,376</u>	<u>\$ 17,031,013</u>

*The accompanying notes are an integral part of these consolidated financial statements.*



**FARESTART**  
Consolidated Statement of Functional Expenses  
Year Ended December 31, 2021

	Food Service Training Program	Management and General		Total Management and General	Fundraising	Total All Services
		FareStart				
		FareStart	Properties, LLC			
Salaries and wages	\$ 4,952,309	2,452,085	-	2,452,085	1,068,620	\$ 8,473,014
Payroll taxes and benefits	1,363,175	987,128	-	987,128	209,832	2,560,135
Total wages and related expenses	6,315,484	3,439,213	-	3,439,213	1,278,452	11,033,149
Restaurant and café operating expenses:						
Linen services	56,974	-	-	-	-	56,974
Paper supplies	373,214	-	-	-	-	373,214
Repairs and maintenance	54,736	6	-	6	-	54,742
Other	285,972	228,373	-	228,373	185	514,530
Total restaurant and café operating expenses	770,896	228,379	-	228,379	185	999,460
Advertising	-	1,100	-	1,100	8,974	10,074
Bad debt and other losses	-	227,930	-	227,930	-	227,930
Bank charges	9,157	18,808	25	18,833	40,821	68,811
Board and staff development	7,613	35,822	-	35,822	2,013	45,448
Interest	-	62,512	-	62,512	-	62,512
Occupancy	2,385,240	87,939	-	87,939	61,844	2,535,023
Other expense	133,256	414,643	-	414,643	185,855	733,754
Professional fees	1,224,794	929,291	-	929,291	92,146	2,246,231
Re-grant expense	10,957	-	-	-	-	10,957
Student support	276,372	6,061	-	6,061	-	282,433
Supplies, postage, equipment and copies	103,252	200,733	-	200,733	49,065	353,050
Depreciation and amortization	131,400	135,736	171,725	307,461	15,239	454,100
Total expenses as shown on the Statement of Activities	11,368,421	5,788,167	171,750	5,959,917	1,734,594	19,062,932
Cost of goods sold:						
Food purchases and other	2,559,576	-	-	-	-	2,559,576
In-kind donations of food	775,762	-	-	-	-	775,762
Total cost of goods sold	3,335,338	-	-	-	-	3,335,338
Special event expenses included with support and revenue on the statement of activities	-	-	-	-	35,301	35,301
Total	\$ 14,703,759	5,788,167	171,750	5,959,917	1,769,895	\$ 22,433,571

The accompanying notes are an integral part of these consolidated financial statements.

**FARESTART**  
Consolidated Statement of Functional Expenses  
Year Ended December 31, 2020

	<b>Food Service Training Program</b>	<b>Management and General FareStart</b>		<b>Total Management and General</b>	<b>Fundraising</b>	<b>Total All Services</b>
		FareStart	Properties, LLC	General		
Salaries and wages	\$ 6,870,957	1,607,881	-	1,607,881	950,922	\$ 9,429,760
Payroll taxes and benefits	<u>1,517,798</u>	<u>419,531</u>	<u>-</u>	<u>419,531</u>	<u>158,601</u>	<u>2,095,930</u>
Total wages and related expenses	<b>8,388,755</b>	2,027,412	-	2,027,412	1,109,523	11,525,690
Restaurant and café operating expenses:						
Linen services	<b>80,468</b>	-	-	-	-	80,468
Paper supplies	<b>382,153</b>	2,830	-	2,830	-	384,983
Repairs and maintenance	<b>40,503</b>	761	-	761	121	41,385
Other	<u>297,366</u>	<u>67,330</u>	<u>-</u>	<u>67,330</u>	<u>21,533</u>	<u>386,229</u>
Total restaurant and café operating expenses	<b>800,490</b>	70,921	-	70,921	21,654	893,065
Advertising	<b>2,658</b>	1,178	-	1,178	10,675	14,511
Bad debt and other losses	-	369,579	-	369,579	-	369,579
Bank charges	<b>49,358</b>	(13,588)	30	(13,558)	95,027	130,827
Board and staff development	<b>43,352</b>	18,475	-	18,475	2,202	64,029
Interest	-	54,219	-	54,219	-	54,219
Occupancy	<b>2,971,407</b>	84,979	-	84,979	41,347	3,097,733
Other expense	<b>199,933</b>	204,448	-	204,448	79,700	484,081
Professional fees	<b>2,703,588</b>	807,804	-	807,804	115,075	3,626,467
Re-grant expense	<b>1,703,850</b>	-	-	-	-	1,703,850
Space rental	<b>11,295</b>	-	-	-	2,776	14,071
Student support	<b>360,310</b>	2,178	-	2,178	-	362,488
Supplies, postage, equipment and copies	<b>93,623</b>	158,484	-	158,484	38,793	290,900
Depreciation and amortization	<u>328,849</u>	<u>27,059</u>	<u>171,726</u>	<u>198,785</u>	<u>11,883</u>	<u>539,517</u>
Total expenses as shown on the Statement of Activities	<b>17,657,468</b>	3,813,148	171,756	3,984,904	1,528,655	23,171,027
Cost of goods sold:						
Food purchases and other	<b>2,604,527</b>	-	-	-	-	2,604,527
In-kind donations of food	<b>762,226</b>	103	-	103	-	762,329
Total cost of goods sold	<u>3,366,753</u>	<u>103</u>	<u>-</u>	<u>103</u>	<u>-</u>	<u>3,366,856</u>
Special event expenses included with support and revenue on the statement of activities	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>189,889</u>	<u>189,889</u>
Total	<u>\$21,024,221</u>	<u>3,813,251</u>	<u>171,756</u>	<u>3,985,007</u>	<u>1,718,544</u>	<u>\$ 26,727,772</u>

*The accompanying notes are an integral part of these consolidated financial statements.*

**FARESTART**  
Consolidated Statements of Cash Flows  
Years Ended December 31, 2021 and 2020

	2021	2020
Cash flows provided (used) in operating activities:		
Cash received from:		
Public contracts	\$ 106,869	\$ 918,458
Private grants	7,787,924	8,267,741
Donors	5,113,519	9,772,325
Sales to the public	6,429,658	6,653,445
Services and membership dues - Catalyst Kitchens	156,845	310,330
Interest, dividends and other	46,640	57,715
Cash paid for:		
Personnel	(11,107,193)	(11,811,914)
Services and supplies	(6,689,414)	(9,011,287)
Interest	(62,512)	(54,219)
Net cash provided (used) in operating activities	1,782,336	5,102,594
Cash flows provided (used) in investing activities:		
Purchases of investments	(16,800)	(27,029)
Purchases of property and equipment	(132,079)	(19,878)
Net cash provided (used) in investing activities	(148,879)	(46,907)
Cash flows provided (used) in financing activities:		
Payment of capital lease liability	(57,314)	(66,838)
Payment of notes payable	(500,000)	-
Proceeds from notes payable	-	2,967,418
Increase (decrease) in line of credit	(1,500,000)	(766,194)
Net cash provided (used) in financing activities	(2,057,314)	2,134,386
Net increase (decrease) in cash and cash equivalents	(423,857)	7,190,073
Cash and cash equivalents at beginning of year	9,811,466	2,621,393
Cash and cash equivalents at end of year	\$ 9,387,609	\$ 9,811,466

*The accompanying notes are an integral part of these consolidated financial statements.*

**FARESTART**  
Consolidated Statements of Cash Flows, continued  
Years Ended December 31, 2021 and 2020

Reconciliation of Changes in Net Assets to Net Cash	2021	2020
Provided (Used) By Operating Activities:		
Changes in net assets	\$ 6,699,611	\$ 368,138
Adjustments to reconcile changes in net assets to net cash provided (used) by operating activities:		
Depreciation and amortization	454,100	539,517
Net realized and unrealized (gains) losses on investments	18,142	(19,472)
Contributed equipment, goods and services capitalized	(274,000)	-
Debt forgiveness - principal	(2,467,418)	-
Decrease (increase) in:		
Accounts receivable	64,735	300,212
Federal awards receivable	(200,188)	230,018
Promises to give	(173,777)	1,195,192
Contribution receivable for rent	(2,046,251)	2,259,526
Prepaid expenses	(87,995)	238,026
Inventory	3,900	836
(Decrease) increase in:		
Accounts payable	23,204	261,234
Accrued expenses	(74,044)	(286,224)
Deferred rent	3,325	8,013
Deferred revenue	(161,008)	7,578
Net cash provided (used) by operating activities	\$ 1,782,336	\$ 5,102,594

SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION

In 2020, FareStart financed the purchase of IT Equipment totaling \$79,266.

**FARESTART**  
Notes to Consolidated Financial Statements  
Years Ended December 31, 2021 and 2020

**NOTE 1 - ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES**

Founded in 1992, FareStart provides a community that transforms lives, disrupts poverty, and nourishes communities through food, life skills, and job training.

In 2020, FareStart adopted an Anti-Racist statement in which it defines anti-racism as the clear acknowledgement that racism permeates organizations, communities, and industries, including our own and we recognize that we have a duty to be vigilant in addressing and confronting racism in how we make decisions, show up in our communities, build business practices and policies, and engage in intentional partnerships and philanthropic endeavors to fulfill our mission and vision.

FareStart also acknowledges that it is located on the ancestral lands of the Coast Salish Peoples, and specifically stands on the lands of the First Peoples of Seattle, the Duwamish. FareStart honors with gratitude the land itself and the Duwamish Peoples who have stewarded it, past and present.

Following its learning from the Apprenticeship program, FareStart consolidated its adult program activity into one offering. Youth Barista and Culinary remain separate online-only experiences in 2021. FareStart engaged 278 applicants, enrolled 182 and facilitated 117 job placements in 2021. Given the opportunity to re-imagine program curriculum, our work continues to emphasize personal stability and enhanced economic mobility but looks and feels different than before COVID-19:

- 1) Adult Training Program, re-imagined in 2021 to be entirely online. Now 6 weeks in length, students receive laptops and wi-fi devices in their homes or shelters to enable their participation in self empowerment skills, computer and financial literacy coursework along with goal-setting. Following completion of this online offering, students are being employed. 96 people were enrolled in 2021.
- 2) Youth Training Program runs in partnership with YMCA Social Impact Center and enrolled 48 people in 2021.
- 3) Youth Culinary Program runs in partnership with the Seattle Public Schools Interagency Academy High School and Nova High School and enrolled 38 people in 2021.

FareStart supported the divestment of its national member network, Catalyst Kitchens, in 2021 into a stand alone organization with a new fiscal agent. As each member indicated its interest in joining the newly independent organization, FareStart remitted any paid but unrecognized dues to the new organization in early 2022. FareStart remains a member in good standing with the newly independent Catalyst Kitchens network.

FareStart also engages in technical assistance and training for nonprofit organizations across the country. In 2021, our consultancy supported 70 unique nonprofit organizations. The consulting team prepared 6 new programs to launch and 4 existing programs to scale. In addition, training was provided to 88 individuals in a virtual format.

The COVID-19 crisis materially impacted FareStart's overall funding model in 2021. Although revenue was generated by all traditional activities including social enterprise, Catalyst Kitchens membership and consulting, public contracts and philanthropy, the amounts and timing were significantly different in 2021 than in previous years.

# FARESTART

Notes to Consolidated Financial Statements, continued  
Years Ended December 31, 2021 and 2020

## NOTE 1 - ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES, continued

Following the order of the Governor of the State of Washington on March 16th, 2020, FareStart's contract meal service to vulnerable populations was able to continue in 2021 as an essential service and expanded to address the growing need for hunger relief as the region addressed its homeless population in new ways by opening more quarantine sites along with permanent supportive housing locations using hotels. As in 2020, FareStart continued the redeployment of all culinary staff into daily emergency meal production and distribution resulting in 1,978,494 meals produced as of December 31, 2021. Primary partner sites receiving meals included Downtown Emergency Services Center, Plymouth Housing, and the Seattle Public School free and reduced lunch distribution locations. Additionally, the Seattle Housing Authority and King County Housing Authority have distributed these meals to their clients.

FareStart receives significant funds via public contracts including Federal funding via USDA Supplemental Nutrition Assistance Program ("SNAP") administered via the Department of Social and Health Services for the State of Washington, City of Seattle emergency feeding funds, King County Quarantine and Isolation facility feeding contracts. As seen in 2020, the continued crisis led to a material reduction in allowable billing under the SNAP funding as student programming, while back in virtual form, was significantly lower than typical years prior to 2020.

FareStart typically generates philanthropy-related funding via fundraising events, major campaigns, grants and annual giving. In 2021, the continuation of the COVID-19 crisis coupled with FareStart's vigorous efforts to address food security led to a continued strong level of financial support by the community.

FareStart applied for and received two SBA loans relating to the COVID-19 crisis in 2020. The first was the SBA Economic Impact Disaster Loan in the amount of \$500,000. Additionally, an SBA Payroll Protection Program Loan for \$2,467,418 was received. In 2021, the SBA EIDL amount was repaid in full and the SBA Payroll Protection Program Loan was fully forgiven, FareStart concluded 2021 with no debt on the books other than some equipment financing.

### Principles of consolidation

The consolidated financial statements include the accounts of FareStart and its wholly owned subsidiary, FareStart Properties, LLC (FSP LLC). All material intercompany transactions between the entities have been eliminated.

### Basis of presentation

The accompanying consolidated financial statements have been prepared in conformity with the disclosure and display requirements of the Presentation of Financial Statements for Not-for-Profit Entities Topic of the Financial Accounting Standards Board (FASB) Accounting Standards Codification. This Topic establishes standards for external financial reporting by not-for-profit organizations and requires that resources be classified for accounting and reporting purposes into two net asset classes according to donor imposed restrictions: net assets without donor restrictions and net assets with donor restrictions.

# FARESTART

## Notes to Consolidated Financial Statements, continued Years Ended December 31, 2021 and 2020

### NOTE 1 - ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES, continued

#### Basis of presentation, continued

The net assets of FareStart are classified as follows:

- Net assets without donor restrictions are available without restriction for support of FareStart's operations.
- Net assets with donor restrictions are restricted by donors to be used for certain purposes or in future periods and consisted of \$4,577,778 and \$2,575,376 at December 31, 2021 and 2020, respectively. Other donor restrictions may be perpetual in nature, where the donor has stipulated the funds be maintained in perpetuity. FareStart had no net assets with perpetual restrictions at December 31, 2021 and 2020.

#### Basis of accounting

The consolidated financial statements are prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America.

#### Cash and cash equivalents

Cash and cash equivalents consist of general checking, savings, and money market accounts. FareStart maintains its cash and cash equivalents in bank accounts that may exceed federally insured limits at times during the year. FareStart has not experienced any losses in these accounts, and management does not believe it is exposed to any significant credit risk.

#### Investments

Investments consist of investments in mutual funds and exchange traded funds which are classified as available-for-sale securities carried at fair value. Net unrealized investment gains (losses) related to available-for-sale securities are recorded in the total change in net assets. Interest and dividends earned are reported in interest and other income. FareStart uses quoted market prices or public market information to determine the fair value of its investments.

#### Accounts receivable

Accounts receivable includes amounts owing from contract meal sales and Catalyst Kitchens and is stated at net realizable value and is unsecured. Management provides for uncollectible accounts receivable through a provision for bad debt expense and an adjustment to the allowance for doubtful accounts based on its assessment of the current status of individual accounts. Balances that are still outstanding after management has used reasonable collection efforts are written off through a charge to the valuation allowance and a credit to the applicable accounts receivable. Accounts receivable are considered past due when not paid in accordance with the various contract and grant agreements. As of December 31, 2021 and 2020, the allowance for doubtful accounts was \$48,317 and \$60,389, respectively.

Receivables from contracts with customers are reported as accounts receivable, net in the accompanying consolidated statements of financial position. Contract liabilities are included in deferred revenue in the accompanying consolidated statements of financial position.

# FARESTART

## Notes to Consolidated Financial Statements, continued Years Ended December 31, 2021 and 2020

### NOTE 1 - ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES, continued

#### Promises to give

Unconditional promises to give are stated at net realizable value when received. In accordance with financial accounting standards, unconditional promises to give are recognized as support in the period received and as assets, decreases of liabilities, or expenses depending on the form of the benefits received. Conditional promises to give – that is, those with a measurable performance or other barrier and a right of return - are not recognized until the conditions on which they depend have been met. FareStart uses the allowance method to determine uncollectible unconditional promises to give. The allowance is based on prior years' experience and management's analysis of specific promises made. No allowance was recorded as of December 31, 2021 and 2020. Promises to give – long-term are due within three years. The long-term pledges are recorded at present value, discounted at the rate that reflects the relative risk of achieving the cash flows and the time value of money.

#### Inventory

Inventory is stated at the lower of cost or net realizable value under the first-in, first-out method of accounting, and consists of food and supplies.

#### Use of estimates

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

#### Property and equipment

Property and equipment are stated at cost or, if donated, at market value at date of donation. Property and equipment with an original cost of \$5,000 or greater are capitalized. Depreciation is provided using the straight-line method over the estimated useful lives of the assets, principally three to seven years for furniture and equipment, five years for vehicles, five to fifteen years for leasehold improvements and forty years for buildings. Depreciation expense was \$454,100 and \$533,939 for the years ended December 31, 2021 and 2020.

Property and equipment consisted of the following at December 31:

	<u>2021</u>	<u>2020</u>
Land	\$ 2,442,204	\$ 2,442,204
Construction in process	250,000	-
Building and improvements	8,538,569	8,474,358
Furniture, equipment and software	3,324,449	3,256,581
Vehicles	462,655	438,655
	<u>15,017,877</u>	<u>14,611,798</u>
Less accumulated depreciation	<u>(6,758,772)</u>	<u>(6,304,672)</u>
	<u>\$ 8,259,105</u>	<u>\$ 8,307,126</u>

*These notes are an integral part of the consolidated financial statements.*



## FARESTART

Notes to Consolidated Financial Statements, continued  
Years Ended December 31, 2021 and 2020

### NOTE 1 - ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES, continued

#### Revenue and Revenue Recognition

The Organization recognizes contributions when cash, investments or other assets; an unconditional promise to give; or a notification of a beneficial interest is received. Conditional promises to give - that is, those with a measurable performance or other barrier and a right of return - are not recognized until the conditions on which they depend have been met. A portion of the Organization's revenue is derived from cost-reimbursable federal and state contracts and grants, which are conditioned upon certain performance requirements and/ or the incurrence of allowable qualifying expenses. Amounts received are recognized as revenue when the Organization has incurred expenditures in compliance with specific contract or grant provisions.

Food service revenue is recognized upon delivery. Catalyst Kitchen membership dues, which are nonrefundable, are comprised of an exchange element based on the value of benefits provided. The Organization recognizes the exchange portion of membership dues over the membership period, and the contribution portion immediately. The Organization records special events revenue equal to the fair value of direct benefits to donors, and contribution income for the excess received when the event takes place.

#### Restricted and unrestricted support

Donor-restricted support is reported as an increase in net assets with donor restrictions, depending on the nature of the restriction. When restrictions expire (that is, when a stipulated time restriction ends or purpose restriction is accomplished), net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the consolidated statements of unrestricted activities as net assets released from restrictions.

Gifts of property and equipment are reported as unrestricted support unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Absent explicit donor stipulations about how long those assets must be maintained, expirations of donor restrictions are reported when the donated or acquired long-lived assets are placed in service.

#### Donated goods and services

Donated goods and use of facilities are recorded as contributions at their estimated fair values at the date of donation. In accordance with financial accounting standards, the consolidated financial statements reflect only those donated services requiring specific expertise that FareStart would otherwise need to purchase.

In addition, FareStart receives a substantial amount of services donated by people interested in FareStart's programs. The consolidated financial statements do not reflect the value of these donated services. The kinds of services provided generally involve the contribution of time to the food services program and special events.

## FARESTART

### Notes to Consolidated Financial Statements, continued Years Ended December 31, 2021 and 2020

#### NOTE 1 - ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES, continued

##### Advertising expenses

Advertising is expensed as incurred. For the years ended December 31, 2021 and 2020, advertising expense was \$10,074 and \$14,511, respectively.

##### Functional allocation of expenses

The costs of providing the various programs and other activities have been summarized on a functional basis in the consolidated statements of activities and of functional expenses. Accordingly, certain costs have been allocated among the program and supporting services. Wages and related expenses are allocated based on time and effort. Most other expenses, including occupancy, professional fees and depreciation are allocated based on headcount.

A portion of food waste in the kitchen operations is allocated from food cost of goods sold to student support expenses. FareStart operates a production and training kitchen. As a result, FareStart incurs additional food waste above and beyond the waste that would normally be associated with a production kitchen that does not train students.

##### Federal income taxes

The Internal Revenue Service has recognized FareStart as exempt from federal income taxes under the provisions of Section 501(a) of the Internal Revenue Code as an entity described in Section 501(c)(3) and is classified as an organization other than a private foundation under Section 509(a)(1).

FSP LLC is not a taxpaying entity for federal income tax purposes, and thus no income tax expense has been recorded in the consolidated financial statements. Income from FSP LLC is taxed to the member in its respective tax return. Differences between tax and financial statement income result primarily from 1) the use of accelerated depreciation for federal income tax purposes and 2) the expensing of organization and start-up costs for financial reporting purposes versus capitalization and amortization for federal income tax purposes.

FareStart accounts for tax positions in accordance with the Recognition and Initial Measurement Sections of the Income Taxes Topic of the Financial Accounting Standards Board Accounting Standards Codification. With few exceptions, FareStart is subject to federal and state income tax examinations by tax authorities for the prior three years. Management has reviewed FareStart's tax positions and determined there were no uncertain tax positions as of December 31, 2021 and 2020.

FareStart recognizes income tax related interest in interest expense and penalties in operating expenses. During the years ended December 31, 2021 and 2020, FareStart recognized no income tax related interest or penalties.

# FARESTART

Notes to Consolidated Financial Statements, continued  
Years Ended December 31, 2021 and 2020

## NOTE 1 - ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES, continued

### Impairment of Long-Lived Assets

FareStart reviews long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying value may not be recoverable. Recoverability is measured by a comparison of the carrying amount to the future net undiscounted cash flow expected to be generated and any estimated proceeds from the eventual disposition. If the long-lived assets are considered to be impaired, the impairment to be recognized is measured at the amount by which the carrying amount exceeds the fair value as determined from an appraisal, discounted cash flow analysis, or other valuation techniques. There were no impairment losses recognized for the years ended December 31, 2021 and 2020.

## NOTE 2 – SUBSEQUENT EVENTS

On January 31, 2022, the Catalyst Kitchens Network (the Network) was established as a separate organization from FareStart. The deferred membership dues of \$46,265 held by FareStart on that date were transferred to the Network's new fiscal sponsor. In addition, FareStart made a one-time donation to the Network of \$30,000. FareStart intends to maintain its membership in the Network.

Subsequent events have been evaluated through September 20, 2022, which is the date the consolidated financial statements were available to be issued.

## NOTE 3 – LIQUIDITY

FareStart concluded the years ended December 31 with the following liquid or near-liquid resources:

	<u>2021</u>	<u>2020</u>
Operating cash	\$ 9,387,609	\$ 9,782,667
Bank controlled cash	-	28,799
Accounts receivable, net	283,569	348,304
Federal awards receivable	378,315	178,127
Promises to give - current	679,625	568,348
Board designated reserve	1,146,490	1,146,775
FareStart property reserve	<u>535,807</u>	<u>536,864</u>
Subtotal	12,411,415	12,589,884
Less amounts not available to be used within one year:		
Net assets with donor restrictions	500,000	543,849
Net assets with purpose restrictions to be met in less than a year	<u>(400,000)</u>	<u>(479,437)</u>
	<u>100,000</u>	<u>64,412</u>
Financial assets available to meet general expenditures over the next twelve months	<u>\$ 12,311,415</u>	<u>\$ 12,525,472</u>

*These notes are an integral part of the consolidated financial statements.*

## FARESTART

### Notes to Consolidated Financial Statements, continued Years Ended December 31, 2021 and 2020

#### NOTE 3 – LIQUIDITY, continued

Both of the reserve accounts are board-designated reserves with the objective of setting aside funds to be drawn upon in the event of a liquidity need resulting from events outside ordinary operations. The institution's target for this total reserve is closer to \$2.0 - \$3.0 million, which was determined based on management's judgement regarding the appropriate amount of funds to set aside in addition to working capital. The reserve funds are held in lower-risk investments which prioritize principal preservation over growth.

In the event of an unanticipated liquidity need, the institution could draw upon an unsecured line of credit in the amount of \$1 million as discussed in Note 7.

#### NOTE 4 – INVESTMENTS – BOARD RESTRICTED

The following schedule summarizes the composition of the Organization's board restricted investments as stated at fair value as of December 31:

	<u>2021</u>	<u>2020</u>
Exchange traded funds	\$ 1,146,463	\$ 1,146,748
Money market funds	2,506	2,506
Mutual funds	<u>533,328</u>	<u>534,385</u>
	<u>\$ 1,682,297</u>	<u>\$ 1,683,639</u>

The Organization's board has designated net assets without donor restrictions equal to the fair value of investments – board restricted presented above for the purpose of enabling the Organization to meet long-term objectives. Investment income consists of dividends of \$14,285 and \$28,266 for the years ended December 31, 2021 and 2020. Changes in net unrealized gains (losses) on investments are comprised of unrealized gains (losses) of \$(18,142) and \$19,472 for the years ended December 31, 2021 and 2020. Each type of investment is held in a single investment fund, which may subject the Organization to market risk.

#### NOTE 5 - FAIR VALUE MEASUREMENTS

The Fair Value Measurements and Disclosures Topic of the Financial Accounting Standards Board (FASB) Accounting Standards Codification establishes a framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements). The three levels of the fair value hierarchy under this topic are described below:

Level 1: Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that FareStart has the ability to access at the measurement date.

## FARESTART

Notes to Consolidated Financial Statements, continued  
Years Ended December 31, 2021 and 2020

### NOTE 5 - FAIR VALUE MEASUREMENTS, continued

Level 2: Inputs to the valuation methodology include:

- a. Quoted prices for similar assets or liabilities in active markets,
- b. Quoted prices for identical or similar assets or liabilities in inactive markets,
- c. Inputs other than quoted prices that are observable for the asset or liability,
- d. Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.

Level 3: Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

The following is a description of the valuation methodologies used for assets measured at fair value:

Investments in exchange traded funds, money market funds and mutual funds: Valued at the daily closing price as reported by the fund. These investments are registered with the SEC and are required to publish their daily net asset value (NAV) and to transact at that price.

The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while FareStart believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

### NOTE 6 – PROMISES TO GIVE

During 2017, FareStart conducted a fundraising campaign, Rising Higher, to raise funds to support the launch of a new foodservice apprenticeship program. Pledges received under the campaign are considered unconditional promises to give. Additionally, multi-year grants receivable for other programs are included in promises to give. Promises to give are reported at present value and were discounted at 0% and 4.51% as of December 31, 2021 and 2020, respectively.

Promises to give consisted of the following at December 31:

Amounts due in:

Less than one year	\$ 679,625	\$ 568,348
One to five years, net of discount	<u>100,000</u>	<u>37,500</u>
	<u>\$ 779,625</u>	<u>\$ 605,848</u>

*These notes are an integral part of the consolidated financial statements.*

## FARESTART

### Notes to Consolidated Financial Statements, continued Years Ended December 31, 2021 and 2020

#### NOTE 7 - LINE OF CREDIT

FareStart had a \$2,000,000 secured line of credit collateralized by FSP LLC's assets that expired May 31, 2021. Advances on the line of credit are payable on demand and carry interest at 2.0% over the one month LIBOR rate. There were advances of \$0 and \$1,500,000 outstanding as of December 31, 2021 and 2020, respectively.

FareStart has a \$1,000,000 unsecured line of credit expiring on October 31, 2022. Advances on the line of credit are payable on demand and carry interest at 2.0% over the one month internal bank rate. There were advances of \$0 and \$0 outstanding as of December 31, 2021 and 2020.

#### NOTE 8 – NOTES PAYABLE

##### Payroll Protection Program Loan

On April 23, 2020, FareStart received a loan in the amount of \$2,467,418 under the Payroll Protection Program (PPP Loan) administered by the Small Business Administration (SBA). The loan accrues interest at an annual rate of 1% and has an original maturity date of two years which can be extended to five years by mutual agreement of FareStart and the lender. Payments are deferred during the Deferred Period. The Deferral Period is the period beginning on the date of this note, April 23, 2020, and ending 10 months after the last day of the covered period (Deferral Expiration Date). Any amounts not forgiven under the Program will be payable in equal installments of principal plus any interest owned on the payment date from the Deferral Expiration Date through the Maturity Date. Additionally, any accrued interest that is not forgiven under the Program will be due on the First Payment Date, which is the 15<sup>th</sup> of the month following the month in which the Deferral Expiration Date occurs.

On June 8, 2021, FareStart received notification that the loan principal balance of \$2,467,418 and related interest of \$28,619 was forgiven by the SBA.

##### Economic Injury Disaster Loan

In 2020, FareStart entered into an Economic Injury Disaster Loan administered by the Small Business Administration in the amount of \$500,000. The loan accrues interest at the rate of 2.75% per annum, including monthly installment payment of \$2,136 beginning 12 months from the date of this loan. The loan balance outstanding was \$0 and \$500,000 at December 31, 2021 and 2020, respectively.

#### NOTE 9 – IN-KIND CONTRIBUTIONS – NON-FOOD

In-kind contributions other than food consist of the following for the years ended December 31:

	<u>2021</u>	<u>2020</u>
Use of facilities, furniture and fixtures	\$ 3,605,595	\$ 63,280
Services	827,371	1,528,966
Goods	<u>1,111,551</u>	<u>221,680</u>
	<u>\$ 5,544,517</u>	<u>\$ 1,813,926</u>

*These notes are an integral part of the consolidated financial statements.*

# FARESTART

## Notes to Consolidated Financial Statements, continued Years Ended December 31, 2021 and 2020

### NOTE 10 – RELATED PARTY TRANSACTIONS

#### Board of Director Contributions

During the years ended December 31, 2021 and 2020, respectively, FareStart received \$142,405 and \$235,658 in contributions from the members of the Board of Directors. Additionally, \$16,770 and \$57,845 of promises to give are recorded as receivable from members of the Board of Directors as of December 31, 2021 and 2020.

### NOTE 11 – LEASE COMMITMENTS

#### Capital Leases

FareStart has financed the purchase of vehicles and IT equipment of \$160,959 and \$249,266 as of December 31, 2021 and 2020, respectively. Accumulated amortization of \$68,630 and \$102,930 was recorded at December 31, 2021 and 2020, respectively. The outstanding balance of the leases as of December 31, 2021 and 2020 was \$58,158 and \$115,472. The leases carry interest rates of 0% to 4.75% and will be repaid over lease term in the years ending December 31:

2022	\$	45,512
2023		<u>12,646</u>
	\$	<u>58,158</u>

#### Operating Leases

FareStart leases equipment under non-cancelable operating lease agreements that terminate in 2024. Future monthly payments are \$2,845. Scheduled lease payments for the years ending December 31, are as follows:

2022	\$	34,140
2023		34,140
2024		2,845
2025		-
Thereafter		<u>-</u>
	\$	<u>71,125</u>

Rent expense under these equipment leases was \$38,236 and \$37,046 for the years ended December 31, 2021 and 2020, respectively, and is included in supplies, postage and copies expense.

FareStart leases its main office and branch locations pursuant to terms of various operating lease agreements. FareStart leases its main office from FSP LLC for \$132,384 per year. The agreement terminates March 2038.

FareStart leases a contract kitchen under a five year lease that began September 1, 2014 and includes the option to renew for two five-year periods beyond the initial lease term. FareStart exercised the first option to renew in 2019.

## FARESTART

### Notes to Consolidated Financial Statements, continued Years Ended December 31, 2021 and 2020

#### NOTE 11 – LEASE COMMITMENTS, continued

Future minimum payments under these space leases, for the years ending December 31, are as follows:

2022		\$	297,818
2023			302,775
2024			248,247
2025			132,384
2026			132,384
Thereafter			<u>1,588,608</u>
			<u>\$ 2,702,217</u>

In 2017, FareStart executed sublease agreements in which the landlord provided FareStart space to operate a new foodservice apprenticeship program at no cost. The contribution receivable for rent represents the fair value of rent contributed to FareStart. The landlord provided the facilities in a fully built-out condition ready for foodservice operations and agreed to pay for all operating costs associated with the use of the space over the life of the lease. One agreement is for an initial five-year term with two five-year extensions at no cost to FareStart. The other agreement has been amended to a four year term that expired in 2021. In 2021, the same landlord executed a new sublease agreement for commercial kitchen space for a five year term beginning in January 2022. The amount of the contributed rent, operating expenses, and use of the build-out and furniture and fixtures to be received is \$4,077,778 and \$2,031,527 at December 31, 2021 and 2020. Discount interest rates of 7.53% - 7.64% for rent and at 4.2% for other contributions were used in the valuation of these contributions. See further discussion at Note 15.

The amounts are due in the following years ending December 31:

		Recognized <u>Contribution</u>	Discount Receivable <u>(Interest Portion)</u>		<u>Total</u>
2022	\$	756,502	(11,879)	\$	744,623
2023		785,959	(34,534)		751,425
2024		800,532	(57,241)		743,291
2025		815,866	(80,069)		735,797
2025		832,010	(103,087)		728,923
Thereafter		<u>545,051</u>	<u>(171,332)</u>		<u>373,719</u>
	\$	<u>4,535,920</u>	<u>(458,142)</u>	\$	<u>4,077,778</u>

Rent expense under these facility leases was \$1,870,649 and \$2,768,237 for the years ended December 31, 2021 and 2020, respectively, and is included in occupancy expense. The in-kind portion of rent expense was \$1,559,344 and \$2,322,806 for the years ended December 31, 2021 and 2020.



## FARESTART

Notes to Consolidated Financial Statements, continued  
Years Ended December 31, 2021 and 2020

### NOTE 12 – NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions are available for the following purposes at December 31:

Purpose restricted gifts:	<u>2021</u>	<u>2020</u>
COVID-19 Response	\$ -	\$ 541,849
FareStart Consulting	300,000	2,000
Total purpose restricted gifts	<u>300,000</u>	<u>543,849</u>
Time restricted gifts:		
Contribution receivable for rent	4,077,778	2,031,527
Contributions with payments due in future periods	200,000	-
Total time restricted gifts	<u>4,277,778</u>	<u>2,031,527</u>
Total restricted gifts	<u>\$ 4,577,778</u>	<u>\$ 2,575,376</u>

### NOTE 13 – REVENUE FROM CONTRACTS WITH CUSTOMERS

FareStart recognized revenue from contract from customers associated with Catalyst Kitchens memberships of \$152,672 and \$163,634 for the years ended December 31, 2021 and 2020, respectively. These revenues are included in services and membership dues – Catalyst Kitchens on the consolidated statements of activities. Annual membership provides access to resources during the membership period. The following table provides information about significant changes in the contract liabilities included in deferred revenue on the consolidated statements of financial position for the years ended December 31:

	<u>2021</u>	<u>2020</u>
Deferred membership dues, beginning of year	\$ 83,563	\$ 67,863
Revenue recognized that was included in deferred membership dues at the beginning of the year	(83,563)	(67,863)
Increase in deferred revenue due to cash received during the period	<u>30,562</u>	<u>83,563</u>
Deferred membership dues, end of year	<u>\$ 30,562</u>	<u>\$ 83,563</u>

### NOTE 14 – DEFINED CONTRIBUTION RETIREMENT PLAN

FareStart maintains a 401(k) plan for all eligible employees with a minimum of 90 days of service. The plan requires mandatory employer matching contributions equal to employees' contributions up to 4% of employee eligible compensation. FareStart contributed \$213,270 and \$226,584 to the plan in the years ended December 31, 2021 and 2020, respectively.

**FARESTART**  
Notes to Consolidated Financial Statements, continued  
Years Ended December 31, 2021 and 2020

NOTE 15 – ECONOMIC CONCENTRATIONS AND CONTINGENCIES

FareStart receives contract revenue from one government agency which provided 21% and 4% of FareStart’s unrestricted public support and other revenue for the years ended December 31, 2021 and 2020, respectively. These contracts are subject to audit, which could result in adjustments to revenue. The adjustments are recorded at the time that such amounts can first be reasonably determined, normally upon notification by the government agency. During the years ended December 31, 2021 and 2020, no such adjustments were made.

An individual granting organization provided 18% and 11% of restricted private grant contributions in the years ended December 31, 2021 and 2020, respectively. One federal award funder composed 81% and 57% of federal awards receivable as of December 31, 2021 and 2020. One donor composed 26% and 52% of promises to give as of December 31, 2021 and 2020. One landlord comprised 100% of contributions receivable for rent as of both December 31, 2021 and 2020.

One vendor supplied 84% and 71% of FareStart’s food purchases which are included in cost of goods sold for both of the years ended December 31, 2021 and 2020.

FareStart invests primarily in exchange traded funds and money market funds, which may subject it to market risk. FareStart owns one property located in Seattle, Washington and operates at two other locations in Seattle, Washington. Future operations could be affected by changes in economic or other conditions in that geographical area.

NOTE 16 – IMPACT OF COVID-19 PANDEMIC

On March 11, 2020, the World Health Organization characterized an outbreak of a novel strain of coronavirus (COVID-19) as a pandemic. In addition, multiple jurisdictions in the U.S. have declared a state of emergency. It is anticipated that these impacts will continue for some time. In response to the pandemic, FareStart’s operations and training programs have been modified as described in Note 1. Changes to the operating environment may increase certain operating costs or disrupt revenue streams. The future effects and potential financial impacts of these events are unknown.

NOTE 17 – SUMMARIZED CONSOLIDATING SCHEDULES FOR 2021

The consolidated financial statements include the accounts of FareStart and its subsidiary, FSP LLC. Therefore the consolidated financial statements reflect the ongoing operating activities of FareStart as well as the operations of FSP LLC.

	FareStart	FareStart	Eliminating	Consolidated
	FareStart	Properties, LLC	Entries	Balances
Assets	\$ 16,640,939	7,390,543	1,218,102	\$ 25,249,584
Liabilities	\$ 1,518,960	-	-	\$ 1,518,960
Net Assets	15,121,979	7,390,543	1,218,102	23,730,624
Total Net Assets and Liabilities	\$ 16,640,939	7,390,543	1,218,102	\$ 25,249,584

*These notes are an integral part of the consolidated financial statements.*

## FARESTART

### Notes to Consolidated Financial Statements, continued Years Ended December 31, 2021 and 2020

#### NOTE 17 – SUMMARIZED CONSOLIDATING SCHEDULES FOR 2021, continued

As reflected in the schedule below, FareStart recorded a increase in consolidated net assets of \$6,699,611, reflecting revenues in excess of expenses at FareStart of \$6,793,409, and a net decrease of \$93,798 at FSP LLC, due primarily to building depreciation expense.

	FareStart	FareStart Properties, LLC	Eliminating Entries	Consolidated Balances
Operating revenue	\$ 7,140,685	-	-	\$ 7,140,685
Cost of goods sold	3,335,338	-	-	3,335,338
Net Operating Revenue	<u>3,805,347</u>	<u>-</u>	<u>-</u>	<u>3,805,347</u>
Unrestricted Public Support and Other Revenue				
Grants, contracts and contributions	9,124,726	-	-	9,124,726
In-kind contributions - other	2,155,555	-	-	2,155,555
Special events, net of direct benefits to donors	1,636,328	-	-	1,636,328
Services and membership dues - Catalyst Kitchens	317,853	-	-	317,853
Interest income and other	72,453	132,384	(186,816)	18,021
Total Unrestricted Public Support and other revenue	<u>13,306,915</u>	<u>132,384</u>	<u>(186,816)</u>	<u>13,252,483</u>
Debt forgiveness	2,496,037	-	-	2,496,037
Total Unrestricted Support and Revenue	<u>19,608,299</u>	<u>132,384</u>	<u>(186,816)</u>	<u>19,553,867</u>
Expenses:				
Wages and related expenses	11,033,149	-	-	11,033,149
Restaurant and café operating expenses	999,460	-	-	999,460
Advertising	10,074	-	-	10,074
Bank charges, bad debt and other expenses	296,716	25	-	296,741
Board and staff development	45,448	-	-	45,448
Interest	62,512	-	-	62,512
Occupancy	2,667,407	-	(132,384)	2,535,023
Other expense	733,754	-	-	733,754
Professional fees	2,246,231	54,432	(54,432)	2,246,231
Re-grant expense	10,957	-	-	10,957
Student support	282,433	-	-	282,433
Supplies, postage and copies	353,050	-	-	353,050
Depreciation and amortization	282,375	171,725	-	454,100
Total Expenses	<u>19,023,566</u>	<u>226,182</u>	<u>(186,816)</u>	<u>19,062,932</u>
Net realized and unrealized gains (losses) on investments	(18,142)	-	-	(18,142)
Restricted revenue	6,226,818	-	-	6,226,818
Total change in net assets	<u>\$ 6,793,409</u>	<u>(93,798)</u>	<u>-</u>	<u>\$ 6,699,611</u>

*These notes are an integral part of the consolidated financial statements.*

## **Supplementary Financial Information**

**FARESTART**  
Schedule of Expenditures of Federal Awards  
Year Ended December 31, 2021

	Federal Assistance Listing	Pass-Through Entity Identifying Number	Expenditures		Total
			Pass-Through Awards of Federal Expenditures	Loan Balance Outstanding	
<b>Department of Agriculture:</b>					
Food and Nutrition Service					
State Administrative Matching Grants for the Supplemental Nutrition Assistance Program Pass-Through Program From Washington State Department of Social and Health Services - Basic Food Employment and Training					
	10.561	2012-94204	\$ 236,115	-	236,115
State Administrative Matching Grants for the Supplemental Nutrition Assistance Program Pass-Through Program From Washington State Department of Social and Health Services - Basic Food Employment and Training					
	10.561	2112-31078	<u>35,279</u>	-	<u>35,279</u>
Subtotal Supplemental Nutrition Assistance Program/Cluster			<u>271,394</u>	-	<u>271,394</u>
Subtotal Department of Agriculture			<b>271,394</b>	-	<b>271,394</b>
<b>Department of Housing and Urban Development</b>					
Emergency Solutions Grant Program Pass-Through Program From City of Seattle Human Services Department					
	14.231	DA21-1914	<u>143,798</u>	-	<u>143,798</u>
<b>Department of the Treasury</b>					
COVID-19: Coronavirus Relief Fund Pass-Through Program From City of Seattle Human Services Department					
	*21.019	DA21 - 1928	<u>3,212,268</u>	-	<u>3,212,268</u>
<b>U.S. Small Business Administration:</b>					
Disaster Assistance Loans					
COVID-19 Economic Injury Disaster Loan SBA Loan #3192217202					
	59.008		-	<u>500,000</u>	<u>500,000</u>
Total Expenditures of Federal Awards			<u>\$ 3,627,460</u>	<u>500,000</u>	<u>4,127,460</u>

\* Denotes Major Program

See accompanying notes to the schedule of expenditures of federal awards

**FARESTART**  
Schedule of Expenditures of Federal Awards, continued  
Year Ended December 31, 2021

NOTE 1 – BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal grant activity of FareStart under programs of the federal government for the year ended December 31, 2021. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the schedule presents only a selected portion of the operations of FareStart, it is not intended to and does not present the financial position, changes in net assets or cash flows of FareStart.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Pass-through entity identifying numbers are presented where available.

NOTE 3 – INDIRECT COSTS

FareStart has elected to use the 10% de minimis indirect cost rate.

NOTE 4 - LOAN BALANCE

FareStart has the following loan outstanding at December 31, 2021:

Federal Assistance	Pass-through entity	Loan Balance
<u>Listing</u> 59.008	<u>entity</u> N/A	<u>Balance</u> \$0

**Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With *Government Auditing Standards***

Board of Directors  
FareStart

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the consolidated financial statements of FareStart (a nonprofit organization), which comprise the consolidated statement of financial position as of December 31, 2021, and the related consolidated statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the consolidated financial statements, and have issued our report thereon dated September 20, 2022.

**Report on Internal Control over Financial Reporting**

In planning and performing our audit of the consolidated financial statements, we considered FareStart's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of FareStart's internal control. Accordingly, we do not express an opinion on the effectiveness of FareStart's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of the internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We identified certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs as items 2021-001 and 2021-002 that we consider to be material weaknesses.

**Report on Compliance and Other Matters**

As part of obtaining reasonable assurance about whether FareStart's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

**Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance  
and Other Matters Based on an Audit of Financial Statements Performed in Accordance  
With *Government Auditing Standards*, continued**

**FareStart's Response to Findings**

*Government Auditing Standards* requires the auditor to perform limited procedures on FareStart's response to the findings identified in our audit and described in the accompanying schedule of findings and questioned costs. FareStart's response was not subjected to the other auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

**Purpose of This Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the organization's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*Finney, Hill & Company, P.S.*

September 20, 2022  
Seattle, Washington



**Independent Auditors' Report on Compliance for Each Major Program and on  
Internal Control over Compliance Required by the Uniform Guidance**

To the Board of Directors  
FareStart

**Report on Compliance for Each Major Federal Program**

***Opinion on Each Major Federal Program***

We have audited FareStart's compliance with the types of compliance requirements identified as subject to audit in the OMB *Compliance Supplement* that could have a direct and material effect on each of FareStart's major federal programs for the year ended December 31, 2021. FareStart's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

In our opinion, FareStart complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2021.

***Basis for Opinion on Each Major Federal Program***

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Our responsibilities under those standards and the Uniform Guidance are further described in the Auditor's Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of FareStart and to meet our other ethical responsibilities, in accordance with relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on compliance for each major federal program. Our audit does not provide a legal determination of FareStart's compliance with the compliance requirements referred to above.

***Responsibilities of Management for Compliance***

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules, and provisions of contracts or grant agreements applicable to FareStart's federal programs.

## **Independent Auditors' Report on Compliance for Each Major Program and on Internal Control over Compliance Required by the Uniform Guidance, continued**

### ***Auditor's Responsibilities for the Audit of Compliance***

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on FareStart's compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards, *Government Auditing Standards*, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about FareStart's compliance with the requirements of each major federal program as a whole.

In performing an audit in accordance with generally accepted auditing standards, *Government Auditing Standards*, and the Uniform Guidance, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding FareStart's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of FareStart's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of FareStart's internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

## **Independent Auditors' Report on Compliance for Each Major Program and on Internal Control over Compliance Required by the Uniform Guidance, continued**

### **Report on Internal Control over Compliance**

*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the Auditor's Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance. Given these limitations, during our audit we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, material weaknesses or significant deficiencies in internal control over compliance may exist that were not identified.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

*Finney, Hill & Company, P.S.*

September 20, 2022  
Seattle, Washington

**FARESTART**  
 Schedule of Findings and Questioned Costs  
 Year Ended December 31, 2021

**Section I – Summary of Auditors’ Results**

Financial Statements

Type of auditors’ report issued Unmodified  
 Internal control over financial reporting:  
 • Material weakness(es) identified? \_\_\_\_\_ X \_\_\_\_\_ yes \_\_\_\_\_ no  
 • Significant deficiency(ies) identified that are  
 not considered to be material weaknesses? \_\_\_\_\_ yes \_\_\_\_\_ X none reported  
 Noncompliance material to financial  
 statements noted? \_\_\_\_\_ yes \_\_\_\_\_ X no

Federal Awards

Internal control over major programs:  
 • Material weakness(es) identified? \_\_\_\_\_ yes \_\_\_\_\_ X no  
 • Significant deficiency(ies) identified that are  
 not considered to be material weaknesses? \_\_\_\_\_ yes \_\_\_\_\_ X none reported

Type of auditors’ report issued on compliance  
 for major programs Unmodified  
 Any audit findings disclosed that are required  
 to be reported in accordance with the  
 Uniform Guidance? \_\_\_\_\_ yes \_\_\_\_\_ X no

Identification of major programs:

<u>Assistance Listing</u>	<u>Name of Federal Program</u>
21.019	CARES Coronavirus Relief Fund

Dollar threshold used to distinguish between  
 type A and type B programs: \$750,000  
 Auditee qualifies as low-risk auditee? \_\_\_\_\_ X \_\_\_\_\_ yes \_\_\_\_\_ no

**FARESTART**  
Schedule of Findings and Questioned Costs, continued  
Year Ended December 31, 2021

**Section II – Financial Statement Findings**

**2021-001      Accounting System, Processes and Reporting**

**Identification as a Repeat Finding:**

Not a repeat finding

**Finding:**

Internal control processes over financial accounting did not ensure that all transactions were properly recorded in accordance with U.S. GAAP on a timely basis.

**Criteria:**

FareStart is responsible for day-to-day transactional accounting as well as annual financial statement reporting. As such, the Organization is responsible for implementing adequate procedures to ensure that such information and reports are accurate and complete.

Uniform Guidance Section 2 CFR 200.303(a), *Internal Controls*, requires that non-federal entities must establish and maintain effective internal controls over the federal award that provides reasonable assurance that the non-federal entity is managing the award in compliance with federal statutes, regulations and the terms and conditions of the federal award.

**Sample Size and Population:**

Sampling was not applicable to this finding.

**Condition and Context:**

The Organization experienced turnover in multiple roles within its accounting and finance department near the fiscal year end. In the midst of the transition in staffing, reconciliations were not performed in a manner sufficient to identify material errors in the financial statements presented for audit.

**Effect:**

Interim financial statements utilized by the Board of Directors for decision making in FY2021 did not accurately reflect the financial condition of the Organization on a U.S. GAAP basis. The Organization's internal controls failed to identify material adjustments to accounts including promises to give, property and equipment, accrued wages and benefits and related expenses, bad debt expense, allocation of functional expenses and net assets with donor restrictions. Additionally, in-kind transactions were not adequately recorded.

**Recommendations:**

- Enhance documentation how of reconciliations and functional expense allocations are performed to ensure that all financial transactions are properly and timely recorded, reviewed, and supported by appropriate documents, records, and instructions.
- Follow established process for identifying fixed asset purchases that should be capitalized.
- Follow established process for identifying and recording in-kind transactions.

**FARESTART**  
Schedule of Findings and Questioned Costs, continued  
Year Ended December 31, 2021

**Section II – Financial Statement Findings, continued**

**2021-001      Accounting System, Processes and Reporting, continued**

**Questioned Costs:**

None

**Management Response:**

Management response is reported in the “Corrective Action Plan” at the end of this report.

**Contact Person:**

Ryan Dean, CFO

**2021-002      Schedule of Expenditures of Federal Awards (SEFA)**

**Criteria:**

The Organization is responsible for establishing and maintaining controls over the accuracy and completeness of the program information and expenditure amounts reported on the schedule of expenditures of federal awards as part of the financial statement close process.

**Sample Size and Population:**

N/A

**Condition and Context:**

The SEFA initially prepared for audit contained errors in the amounts expended under federal programs and did not include Assistance Listing 14.231 as a federal program.

**Effect:**

The initial SEFA presented for audit did not include all accrual accounting entries that would enable it to comply with GAAP reporting requirements under the Uniform Guidance and did not reconcile to underlying general ledger data.

**Cause:**

The Organization experienced turnover in multiple roles within its accounting and finance department near the fiscal year end. The SEFA preparer was unfamiliar with how the underlying financial data had been maintained in the general ledger during the year.

**FARESTART**  
Schedule of Findings and Questioned Costs, continued  
Year Ended December 31, 2021

**Section II – Financial Statement Findings, continued**

**2021-002 Reporting – Schedule of Expenditures of Federal Awards, continued**

**Recommendation:**

We recommend the Organization document the process for preparing and reviewing the schedule of expenditures of federal awards in the annual financial statement close process.

**Questioned Costs:**

None

**Management Response:**

Management response is reported in the “Corrective Action Plan” at the end of this report.

**Contact Person:**

Ryan Dean, CFO

**Section III – Federal Award Findings and Questioned Costs**

None

**Section IV – Summary Schedule of Prior Audit Findings**

None



September 16th, 2022

Management response to findings associated with the 2021 Financial Statement Audit

**Finding 2021-001** indicated that FareStart's internal processes over financial accounting did not ensure that all transactions were properly recorded in accordance with U.S. GAAP on a timely basis.

**Condition and Context:** FareStart experienced turnover in all roles of its accounting and finance department near fiscal year end and in the months that followed. In the midst of the transition in staffing, reconciliations were not performed in a manner sufficient to identify material errors in the financial statements presented for audit.

**Effect:** Interim financial statements used by the Board of Directors for decision making in FY2021 did not accurately reflect the financial condition of the organization on a U.S. GAAP basis and included material adjustments needed on promises to give, property and equipment, accrued wages, benefits and related expenses, bad debt expense, allocation of functional expenses and net assets with donor restrictions. Additionally, in-kind transactions were not adequately recorded.

**Auditor Recommendations:**

- 1.) Enhance documentation on how reconciliations and functional expense allocations are performed to ensure that all financial transactions are properly and timely recorded, reviewed and supported by appropriate documents, records, and instructions.
- 2.) Follow established process for identifying fixed asset purchases that should be capitalized.
- 3.) Follow established process for identifying and recording in-kind transactions.

**FareStart Management Response to Findings**

Management agrees that the conditions of late 2021 and into mid 2022 regarding the complete turnover of all 5 FTE's created an unstable condition that led to the number and volume of adjusting journal entries shared with the audit firm following the transmission of the trial balance. We intend to comply with all three noted recommendations by the audit firm pertaining to reconciliations, assets, and in-kind processes. In addition, management has concluded that the COO/CFO role is not feasible for one person in the absence of a stable and appropriately experienced accounting team and have identified and hired a full-time Chief Financial and Administrative Officer who will lead this team moving forward to ensure that the team is staffed, trained and motivated to prevent this issue from recurring. In addition, we seek to build the resilience of the full accounting team in a couple specific ways. First, we've upgraded the Compliance Specialist role focused on the public funds billing and reporting to be a Compliance Manager with broader duties. Secondly, we seek to fill an Accounting Manager role to provide more hands-on training and review of the key transactions to help ensure a timely and accurate

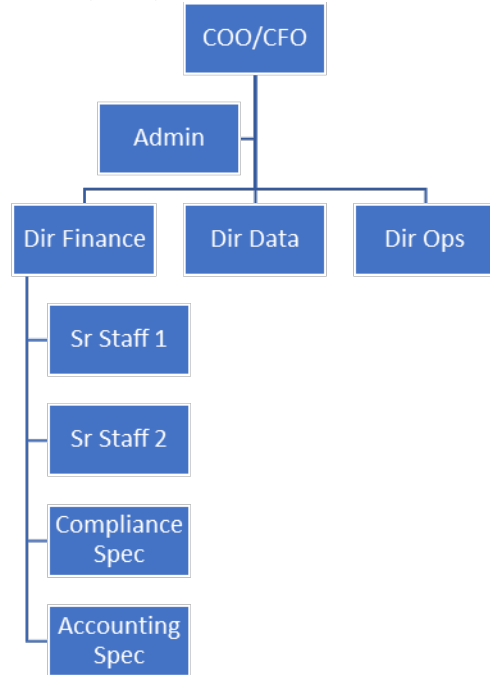


close each month as well as a strong audit process in the future.

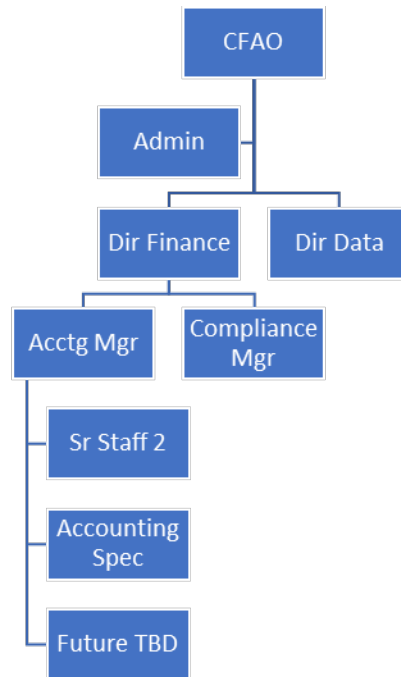
While newer in their careers, the current team is responding well to guidance and are developing well under the Finance Director's leadership.

Here is a pre and post view of the organizational design we're intending to put in place:

Previous Organizational Structure (2021)



Planned Org Structure (2022 forward)



Currently all roles are filled except for the Accounting Manager which is actively being recruited and the “Future TBD” which is a placeholder for the Chief Financial and Administrative Officer’s and Finance Director’s use following each of their assessments of the team and where gaps may need to be addressed. Too many duties are falling on the Finance Director at present to complete and he needs to create space for his true strength of substantial and meaningful process improvement that will help to establish a system of success that can outlive any person in role and ensure that future financial reporting can continue without issue.

Sincerely,

*Ryan Dean*

Ryan Dean  
COO/CFO